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Energy | Power & Utilities

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AGA Meeting Takeaways

In this note, we briefly summarize takeaways from each of our AGA meetings over the past two days.

Ameren Corp. (AEE), Outperform rating, $84 price target

- **IL Downstate Clean Energy Act:** AEE feels good about bill passage this year given bipartisan support / job creation potential. Whether it is addressed during the current legislative session ending 5/31, in a special session or the veto session remains to be seen. Recall that the Act would increase the adder on the ROE formula from 580 to 680 bps above the 30-YR treasury. It would also create the opportunity for solar/storage/EV investment in a state where AEE is purely T&D.
- **MISO ROE decision possible this Thursday:** AEE is hopeful that FERC will revise the methodology/raise the base ROE given consensus that it is based on a flawed methodology and the fact that transmission investment is more risky than distribution.
- **Next rate case in MO**: The primary factors determining timing of the next rate case are the wind projects slated to go into service late this year and early next year, and COVID-related issues. The only restriction on filing in MO is a 60-day notice. AEE expects to earn its allowed ROE in MO (recently increased from 9.2-9.7% to 9.4-9.8%) with help from PISA accounting and RESRAM riders.
- **O&M savings**: As AEE stated on the Q1 call, it expects to deliver within its 2020 EPS guidance by offsetting COVID-related impacts with reduced O&M. The reductions fall into several buckets, including reduced hiring, travel, consultants, etc.

See inside for our takeaways on 11 more companies.

Avangrid (AGR), In Line Rating, $46 price target

- **Vineyard Wind:** AGR still expect BOEM to release draft cumulative impact statement on June 12 and for final EIS to come in November in line with BOEM's most recent schedule. AGR noted they have been in constant contact with BOEM, giving us more confidence that this schedule will hold. As a reminder, the cumulative impact statement will have impacts on other projects in the area, such as ES and Orsted's Revolution Wind.
- **NECEC**: The ME Department of Environment Protection issued a permit last week, so they now have all state permits. They are still waiting for Army Core of Engineers and a Presidential permit. YE'22 in-service still targeted but could see delay of a few months depending on remaining permits.
- **Analyst Day**: AGR expects to hold this event in coordination with Iberdrola in 4Q and will likely include disclosures on par with prior years (LT growth rate through 2024, rate base and capex, capacity factor forecasts for the renewables business, etc.)
- **CEO Succession plan:** The board is considering both internal and external candidates we would expect a successor to be name prior to current CEO Jim Torgerson's departure in June.

CenterPoint Energy (CNP), In Line rating, $18 price target

- **COVID update:** All of the states in CNP's service territory are in the process of reopening, giving confidence in the expected U-shaped recovery by September. Notably, the Toyota plant in Indiana is reopening.
- **2020 and long-term EPS guidance**: assumes earnings at or near allowed returns across the utilities and a continuation of 2% customer growth at Houston Electric. CNP does not expect ROEs in rate cases to be pushed much lower than current levels.
- **CEO search**: as CNP highlighted on the Q1 call, it is currently in the back end of the process.
- **Business Review and Evaluation Committee will pick up soon**. CNP said its Board always considers both corporate and asset-specific M&A, including as it relates to ENBL, though the tax basis still an issue with that. The company will publicly share any updates that it has after the Committee's recommendation to the Board in October and potentially before the Analyst Day in 1Q21.
- **Credit metrics**: as CNP stated on the Q1 call, it expects higher than 14.5% FFO to debt this year, providing some cushion for COVID with respect to company's 14% target long term. CenterPoint anticipates that rating agencies will revisit outlooks after the CES divestitures closes in Q2. Recall that CNP is currently on negative outlook at both Moody's and S&P, which were last updated prior to the $1.4Bn equity investment.

CMS Energy (CMS), In Line Rating, $63 price target

- **Covid sales impacts:** CMS indicated they see the $0.03-$0.04/sh per month hit to EPS quoted on the 1Q call as likely being the trough in terms of impacts. With reopening's starting in Michigan, they are already seeing signs that ultimate monthly impacts will be less.
- **Seeking approval to defer certain Covid costs:** Michigan has already authorized utilities to defer bad debt expense and has opened the door for consideration of other cost deferrals. In April, CMS also sought approval to defer other Covid-19 costs related to sequestering labor for 14 days at power plants and compression stations, keeping certain labor at home in home reserve status, incremental cleaning, and new technology for employees to work from home. All together these costs could total $2.2M to $15.3M per month.
- **Covid mitigation plans:** On the 1Q call, CMS noted that they have reduced expenses by $0.10-$0.15 in a given year in response to weak load or other unexpected negatives. At AGA, they reminded us that this was just to show what they have done in the past and was not meant to be considered a ceiling.
- **Enerbank:** CMS sounded relatively upbeat on Enerbank's positioning noting that while originations slowed in March they did see a nice recovery in April.
- **M&A Strategy**: CMS is focused on its organic growth plan and executing their capex backlog, while like any other prudent management team they consider M&A but view such transactions as having a high hurdle rate.

Consolidated Edison (ED), In Line rating, $85 price target

- **Long-term EPS growth rate**: Items causing the reduction to 2020 EPS guidance is not expected to be carried forward into 2021 and beyond. Con Ed's 3-5% EPS CAGR through 2024 off of the original (higher) 2020 guidance remains intact.
- **COVID impacts:** Con Ed does not expect to recover lost revenue from suspension of late fees and connect / disconnect fees. Some incentives in the CECONY rate plan are harder to achieve in the COVID environment; these include work that is customer-facing, such as selling energy efficiency, connecting distributed energy resources, etc. While the incentives are not based on cumulative results, a ramp-up in 2021 could be required to recover lost ground.
- **O&M**: expected to be lower in 2020 than original plan due to acceleration of cuts that were originally planned for 2021 and 2022, as per the CECONY rate agreement. The bulk of the cuts are expected to be sustainable.
- **Equity issuance plans:** ED entered a bank loan agreement at the parent on April 6th that gave it the ability to borrow $750mm on a 364-day basis. It is designed to provide liquidity that the equity offering would have provided, so it gives ED flexibility to find a more opportune time to issue equity but still expected this year. Recall that the company has guided to up to $600mm this year and $1.1Bn in 2021/22. Con Ed typically issues equity to target a regulatory cap structure rather than an FFO to debt credit metric.
- **Pipeline update**: Sponsors still see a narrow path for a Mountain Valley Pipeline in-service date by YE'20. It is thought possible that the project will be delayed again given a federal judge's (in Montana) ruling in a case involving Keystone crude pipeline that the US Army Corps of Engineers did not comply with the Endangered Species Act. Last week, the judge refused to limit his decision to Keystone, prompting the US Justice Department to ask the 9th Circuit Court of Appeals to stay the lower court's ruling. Separately, Stagecoach does not fit into ED's long term plans in a decarbonized world, but the company is not in a hurry to reduce its ownership.

DTE Energy (DTE), In Line rating, $120 price target

- **Covid sales impacts**: Due to AMI, DTE is seeing real time impacts of reopening's in MI and is seeing load improve a little bit more than their assumptions discussed on the 1Q call.
- **Michigan regulatory environment**: Continue to be pleased with relationship in MI noting that the recent electric rate order was constructive.
- **Power & Industrials segment**: DTE noted that their industrial energy services business benefits from long-term contracts and is well insulated during Covid 19. The RNG business is also holding up well as pricing for RNG in California remains strong and there is still demand for new RNG projects.
- **Gas Storage and Pipelines segment**. The business (both in Appalachian and Haynesville basins) continues to deliver ahead of plan into 2Q in part driven by higher gas futures due to reduced associated gas supply.

Duke Energy (DUK), In Line rating, $90 price target

- **Covid sales impacts**: Load trajectories appear to be relatively consistent with what DUK had expected at the time of the 1Q call.
- **Rate cases:** No material updates in either the NC cases or in IN. They are awaiting a response in NC to the motion to consolidate hearings in the DEP and DEC cases and expect a rate order in IN around mid-year.
- **ACP:** The court order on Nationwide Permit 12 could be impactful on ACP. The Army Corp has already filed an appeal in the 9th Circuit Court and we could see a decision this month on their request for a stay of the application of the court order on the use of the nationwide permitting process. The appeal itself will likely play out through the rest of this year. They also await a decision on the Appalachian Trail crossing from the Supreme Court and a revised Biological Opinion from the US Fish and Wildlife Service. Michigan regulatory environment:
- **Credit Metrics**: An announced cost reduction puts them in targeted 15% FFO/Debt range for this year. No change to 2020 financing plan.

Sempra Energy (SRE), Outperform rating, $138 price target

- **Chile:** SRE still expect to close the sale of its Chilean business by the end of the month. The last step before closing is getting workers from State Grid International, a Chinese company, into the country, which has of course been complicated by Covid-19. As we understand it, the workers might also need to be quarantined for 14 days before closing.
- **LNG:** Announced production at Cameron 3 during conference. They continue to expect to make a final investment decision on the ECA project in Mexico this quarter. The project still needs an export permit from Mexico –also complicated by Covid- before a decision can be made.
- **2020 EPS Guidance**: SRE continued to sound optimistic on their positioning in 2020 despite Covid, reiterating plans to deliver in the upper end of their current guidance as discussed on the 1Q call.
- **Covid exposure**: SRE's utilities are well positioned for Covid given decoupling and tracking mechanisms in California and still strong demand in Texas.
- **Credit Ratings**: We believe SRE's comments suggest they will be more likely to accept a credit rating downgrade (they are rated Baa1 by Moody's, so a credit downgrade is still high rated IG) at Moody's, which placed them on an outlook for downgrade earlier this year, than to issue incremental equity

Southern Company (SO), In Line rating, $59 price target

- **Covid sales impacts:** SO indicated that load in April was pretty consistent with what they expected at the time of the 1Q call and with their guidance for Covid to negatively impact revenues in the $250m-$400m range.
- **Mitigation plans:** SO is hopeful they might get some help from weather this summer but also noted that they still feel well positioned to offset Covid-related sales impacts with cuts to O&M. They will also benefit from the ability to defer Covid-related costs, like bad debt expense, in GA and MS now**.**
- **Doing more with less at Vogtle:** SO continues to adjust the Vogtle construction site in the wake of the labor force reduction last month. They have seen Cost performance Index (CPI) improve and are now focused on getting earned hours back to where they were. While they expect monthly completion in May at Unit 3 to hover around 1-1.5%, in line with what they delivered in April, they are hopeful that they will ramp back up to 2% in June even with around 2,000 fewer laborers on site.

WEC Energy (WEC), In Line rating, $93 price target

- **Covid sales impacts:** Recent sales trends have been consistent with the revised forecasts issued on the 1Q call.
- **Customer arrears/bad debt expense:** WEC has been pleasantly surprised by trends so far in terms of customer arrears but they will have a better idea of impacts as time goes on.
- **M&A:** WEC's message was relatively consistent in terms of how they think about M&A. They were willing to comment specifically on EVRG, however, noting that they were not interested in participating in any formal auction and also highlighted concerns with the Sibley coal plant disallowance in particular**.**

Essential Utilities (WTRG), In Line rating, $42 price target

- **PA Commission order on uncollectible expense:** In a letter dated 05/13/20 the PA commission directed state utilities to create a regulatory asset for any incremental uncollectible expenses incurred above those embedded in rates since the issuance of the Emergency Order.
- **M&A:** COVID has impacted the pace of discussions on M&A/tuck in opportunities but WTRG is in discussions with several municipalities and has line of sight to sizable water/wastewater acquisitions.
- **Delcora:** Still expected to close by year end but may get pushed into early next year. $300MM in equity issuance still anticipated late this year or early next.

- **Peoples Gas repairs catch up:** There could be further potential earnings upside if the commission allows favorable treatment of the legacy tax balance ($0.05 - $0.10 annual EPS uplift not in our forecast). WTRG is expected to file with the PA commission in summer this year, timing on a final decision is unknown.

Xcel Energy (XEL), In Line rating, $65 price target

- **XEL is very comfortable in delivering 2020 EPS guidance**. The company believes there is opportunity to cut O&M more than 4-5% if the COVID impact is worse than their base case assumptions. So far, it has been better.
- **COVID expenses**: Minnesota is the latest state where XEL received a COVID expense deferral order, with a decision last week. Xcel has had some discussions in various states about tracking savings as well, but nothing has been finalized.
- **Long-term capex opportunities**: incremental capex could be driven by electric vehicle infrastructure, Minnesota renewables (could be highlighted in upcoming IRP) and PPA buyouts. These can be thought of as extending the five-year 5-7% growth rate rather than increasing it.
- **Rate case update**: Xcel is pleased with the recent modifications (resulting in an $11mm revenue increase) that came out of the reconsideration of the Colorado electric rate case. The company is generally pleased with the recent testimony in the Colorado gas rate case, especially as it pertains to the strong cap structure recommended by Staff and the Office of Consumer Council.. XEL is also having discussions in rate cases about how it can help the economy (i.e. workforce) by putting private capital back to work. This could also benefit them by allowing for more capex and/or acceleration of capex and also remove political pressure associated with a rate case.

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Sell	53	7	Sell	4	8
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